

# **PUBLIC DISCLOSURE**

**February 11, 2008**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**BMW Bank of North America  
Certificate 35141**

**2735 East Parleys Way, Suite 301  
Salt Lake City, Utah 84109**

**Federal Deposit Insurance Corporation  
25 Jessie Street at Ecker Square  
San Francisco, California 94105**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **BMW Bank of North America** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 11, 2008**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

*This institution elected to be evaluated under the strategic plan option for 2005 and 2006. The plan approved by the agency, sets forth goals for satisfactory (and outstanding, if applicable) performance. The year 2007 was analyzed under large bank procedures.*

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

The timeframe covered for this assessment is the three years beginning March 1, 2005 through March 1, 2008. The first two years of this period are covered under a three-year CRA Strategic Plan (Plan), approved by the FDIC on February 25, 2004, that covered three years beginning March 1, 2004 through March 1, 2007. The prior CRA evaluation dated March 5, 2005, evaluated the bank's performance during the initial Plan year. The current review evaluates the bank's performance during the remaining two Plan years, beginning March 1, 2005 through March 1, 2007. The bank did not develop a new Plan when it expired in 2007. As such, the bank was evaluated using the CRA large bank test for the period March 2007 through March 2008 based on its asset size.

The analysis of BMW under its Plan and large bank CRA examination procedures is strictly based on its community development activities for the entire analysis period. Finally, the bank confirmed that all of its CRA Plan activities are completed on a calendar year basis. Therefore, all CRA qualifying loans were included for this assessment period. An outline of the Plan's specific goals, and management's efforts to meet those goals, follows under the discussion of CRA performance in the Salt Lake County section of this report.

### **RATING CONCLUSIONS:**

The bank is rated an overall Satisfactory primarily due to its large dollar volume of "Fannie Mae" (FNMA) mortgage-backed securities that facilitate home ownership for low- and moderate-income individuals within its assessment area. The bank also provided community development service hours

within its assessment area. The bank met its investment goals for outstanding performance over the two remaining years of its Plan. However, the bank met its goals through non-complex and simple acquisitions of pooled mortgage-backed portfolios. When looking at overall community development activities during the final year, which is outside of any Plan, the bank's overall performance is considered Satisfactory in its overall scope, local impact, and commitment. This is due to the lack of any community development lending, the lack of qualified investments that are innovative, complex, or not typically provided by private investors, and only an adequate responsiveness to economic development needs in its assessment area. Also, a vast majority of service hours were provided by one Director, with the bulk of remaining hours focused on one entity. The institution must exhibit excellent responsiveness to credit and community economic development needs and make *extensive* use of innovative and/or complex investments. The bank's qualified investments did not meet these criteria.

Qualified Investments – BMW met the respective requirements established under its 2005 and 2006 Plan for an “Outstanding” rating under the investment test. As discussed above, BMW has met its goals strictly through the funding of a series of CRA qualifying Federal National Mortgage Association (FNMA) bond pools consisting of underlying mortgages to borrowers of low- and moderate-incomes, primarily located in the bank's assessment area. As of year-end 2007, the bank had \$41.6 million of these bonds, and averaged around \$30 million during the three year assessment period. Refer to the investment test discussion under discussion of performance in Salt Lake County. The overall investment volume was significant for year 2007, with an additional \$14.6 million FNMA pool acquisition. However, the underlying properties in this pool were primarily located outside of the bank's assessment area; resulting in only satisfactory performance for 2007.

Qualified Service Hours – BMW has provided an overall Satisfactory level of community development service hours during this rating period. The bank met its 2005 and 2006 Plan goals for outstanding performance and met the distribution of employee groups earning those hours. As was noted at the prior examination, the bank depends heavily on one Director, who performs community service on a full-time basis outside of her bank responsibilities, to achieve its service hour's goals. During the three years of this assessment period, this Director provided over 50 percent of the bank's total service hours each year. Virtually all other service hours provided by remaining bank staff involved one entity (Junior Achievement). Refer to the service test discussion under discussion of performance in Salt Lake County.

Donations – The bank also contributed \$61,000 in donations to qualifying entities during the three-year analysis period.

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## **DISCRIPTION OF INSTITUTION**

BMW is a \$2.5 billion Utah industrial bank (IB) operating out of a single office in Salt Lake City, Utah, that began operations in November 1999. BMW is the principal purchaser and servicer of retail automotive installment sales contracts for BMW automotive products across the nation. Over 90 percent of BMW's business is in luxury automotive financing. BMW also offers general purpose credit cards, primarily solicited to BMW owners. A vast majority of the bank's business originates outside of its Salt Lake County assessment area. The bank does not have a typical lobby and walk-in traffic is nonexistent as virtually all transactions are conducted through the mail or via the internet. As of September 30, 2007, the bank had \$2.2 billion in total loans, of which \$1.9 billion were auto loans, and \$259 million were credit cards.

BMW is a wholly-owned subsidiary of BMW Financial Services NA, LLC in New Jersey, which in turn is wholly-owned by BMW of North America, LLC of the BMW U.S. Holding Group, (the holding company) also located in New Jersey. The holding company is wholly-owned by the ultimate parent, BM AG, located in Munich, Germany.

## **DESCRIPTION OF ASSESSMENT AREA**

### **Salt Lake County – part of Metropolitan Statistical Area (MSA) #41620**

BMW has defined its assessment area as Salt Lake County which contains Salt Lake City and surrounding suburbs, and contains the largest population concentration in Utah. In line with CRA requirements, this area was selected solely because it is the location of the bank's lone office, not because it contains the highest percentage of bank deposits or lending activity given the bank's national market.

Salt Lake County is in the heart of Utah's economic core, with Salt Lake City and surrounding suburbs the major metropolitan area within the county. The Salt Lake valley is home to nearly 1 million residents and 40,000 businesses. A good number of those businesses are high technology businesses. An estimated 63,000 Utah workers were employed in technology jobs at year end 2006. Utah is one of the fastest growing states in the country and ranks 35th in the nation in population growth.

Utah's population reached 2.4 million in 2006 with the State of California continuing to dominate the flow of migration while employment-related migration accounts for the majority of population movement to and from Utah. Salt Lake City makes up a very small portion of the Salt Lake valley. With Salt Lake County covering 756 square miles, Salt Lake City covers only 90.5 square miles. Salt Lake City is the largest city in the state with a population of 181,743. Salt Lake County's population is 1.2 million, making it the most populous region in Utah.

<b>SALT LAKE COUNTY DEMOGRAPHICS</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	193	3%	22%	47%	28%
Population by Geography	898,397	1%	23%	49%	27%
Owner-Occupied Housing by Geography	203,690	0%	17%	52%	31%
Businesses by Geography (as of 2005)	101,614	9%	23%	40%	28%
Family Distribution by Tract Income Level	215,864	1%	21%	50%	28%
Distribution of Low and Moderate Income Families throughout AA geographies.	79,691	3%	36%	49%	13%
2007 HUD Adjusted MFI for Salt Lake County Households Below Poverty Level	60,100 7.8%	Median Housing Value Unemployment Rate		\$170,948 2.11	

Source: 2000 US Census and 2006 HUD updated MFI, 2006 Dun and Bradstreet

According to 2005 Dun and Bradstreet data, 101,614 businesses were located in the county with 9 percent of them located in low-income tracts and 23 percent in moderate- income tracts. Small businesses with annual revenues of \$1million or less make up 88 percent of this total.

<b>Selected Assessment Area Housing Characteristics by Income Category of the Geography</b>										
Geographic Income Category	Number of Census Tracts	Percentage						Median		
		Census Tracts	House- holds	Housing Units	Owner- Occupied	Rental Units	Vacant Units	Age*	Home Value*	Gross Rent**
<b>Low</b>	<b>5</b>	3%	20%	1%	nom%	2%	2%	40 yrs	\$101,452	\$504
<b>Moderate</b>	<b>43</b>	21%	18%	28%	17%	48%	39%	39 yrs	\$118,647	\$579
<b>Middle</b>	<b>90</b>	49%	23%	47%	52%	40%	38%	25 yrs	\$148,438	\$695
<b>Upper</b>	<b>55</b>	27%	39%	24%	31%	10%	21%	23 yrs	\$232,957	\$873
<b>Total or Median</b>	<b>193</b>	100%	100%	100%	100%	100%	100%	26 yrs	\$170,948	\$652

Source: 2000 U.S. Census, \* - Owner-Occupied Units, \*\* - Renter-Occupied Units

The preceding table shows that 38 percent of all households Salt Lake County resided in low- and moderate-income census tracts according to the 2000 U.S. Census. Of the 295,290 households, 20 percent were classified low-income, 18 percent moderate-income, 23 percent middle-income, and 39 percent upper-income.

## **ASSESSMENT AREA'S ECONOMIC OUTLOOK**

Utah is enjoying a robust expansion, with job growth running at about triple the national pace. The construction industry still leads job growth, despite a contraction in homebuilding, but manufacturing payrolls are declining after three years of strong growth. Service industry employment is also growing at far above the national pace. Population growth in the Salt Lake Valley remained well above average in 2006, but has slowed over the past two years.

With the strong economy of the past few years, the Utah unemployment rate has been falling since 2003. It has now been below 3% for three straight months, about two percentage points below the national figure; this is despite a rapid expansion in the labor force since 2004. The unemployment rate will continue to decline in the near term thanks to the ongoing expansion. Business leaders are concerned about the tight labor market; it will discourage some firms from expanding or locating in the state, and will also put upward pressure on wages. Over the long run the Utah unemployment rate is expected to remain well below the national average, despite strong population and labor force growth, presenting a downside risk to growth.

Micron and Intel have opened their new flash memory plant in nearby Lehi, Utah. The joint venture, IM Flash Technologies, has invested nearly \$2 billion in the plant. The company is still hiring, contributing to strong employment growth in the area. This facility expected to employ almost 2,000, with the jobs paying salaries well above the statewide average. The plant will be a major growth driver for Utah, both in the near term and over the long run.

### **Housing**

Over the past year housing prices in the county are up 17%. As a result, affordability has dropped quickly. In mid-2003, a household with the median income could afford a home that cost 60% more than the median single-family existing home sale price, according to Moody's Economy.com estimates. Currently, that figure is just 20% above the median sale price. Housing is now relatively less affordable in Utah than it is in the rest of the U.S. With the drop in affordability house-price growth in Utah is set to slow in the near term, with mid-single digit price increases in 2007 and low single-digit price increases in 2008. Affordability will stay near its current level. By late 2007, this slowdown in price growth will weigh on consumer spending growth in Utah, through reduced mortgage equity withdrawal and a smaller wealth effect.

Salt Lake County had an owner-occupied dwelling median in 2005 of \$179,200, reported by the American Community Survey. This value is greater than the Utah 2005 home median value of \$167,200 and greater than median owner-occupied dwelling value of \$167,500 for the United States in the same year. Salt Lake County ranks 17 of 29 in terms of growth of new housing structures between 2001 and 2005. The county stands 552 of 3,141, in terms of residential real estate percentage change in the United States. In Salt Lake County, the real estate market was made up of 337,601 homes in 2005. The county has experienced a growth in housing units, adding a total of 21,751 homes since 2001, or 6.9 percent.

The residential housing values in the county have moderate increases since the census values accounted for in the year 2000. There is a limited amount of housing that is affordable in Salt Lake County. In 2005, 16.8 percent of owner-occupied dwellings were valued under \$125,000. On the other hand, Salt Lake County has a medium percentage of homes that are high in price. In 2005, the American Community Survey reports that 4.2 percent of residential property was valued over \$500,000.

### **Retail Business**

The retail trade industry in Utah shows no signs of slowing down, despite industry job losses at the national level in recent months. Major national retailers continue to open locations in the state, employment is up, and state sales tax data point to continued expansion. A number of factors are driving increased retail activity: strong job growth, median household income which is 15 percent above the national average, population growth that is well above the national average, and a young population. In the near-term, retail employment growth will slow, but remain positive as higher interest rates and a weakening in house price appreciation lead to smaller gains in consumer spending. Over the long run, however, the state's positive demographics will continue to attract retailers to the area, and job gains and the industry will remain well above the national average.

### **Infrastructure**

An area that needs to be addressed by the state and Salt Lake City is the long-term growth in the transportation infrastructure. Rapid population growth and an expanding economy are contributing to traffic problems along the Wasatch Front from Provo to Ogden. The state is currently building a new parkway in the Ogden metro area that should help relieve congestion on I-15. In addition, a new commuter train line linking Ogden and Salt Lake City is projected to open in 2008. Even with these projects however, the Department of Transportation estimates a funding shortfall of up to \$20 billion over the next 15 years.

### **Overall**

The economic expansion in Utah will continue, but job growth will slow to closer to the national average in 2007 due to weaker national growth and contraction in Utah homebuilding. Over the long-run, the Utah economy will benefit from defense spending, low business costs, a young labor force, and rapid population growth. Utah will see growth well above the national average over the forecast horizon.



## **BANK'S IDENTIFICATION OF ASSESSMENT AREA NEEDS**

In developing its Plan goals, the bank performed a needs assessment of Salt Lake County to determine where and how to invest its various resources in meeting the identified needs. The bank identified the following areas to focus its efforts:

- **Housing** – The lack of affordable housing and rental units in the assessment area is well known and commonly recognized. The bank has stated that it will focus on revitalizing existing housing stock in targeted areas, providing assistance to first time homebuyers, and providing shelter for families.
- **Qualifying Organization Leadership** – Serving on boards, or committees or community organizations whose missions and activities qualify for CRA credit.
- **Financial Education for Children** – Providing help to children of all ages become financially aware.
- **Financial Education for Adults** – Teaching the unbanked core banking skills through the FDIC sponsored Money Smart.

## **DISCUSSION OF CRA PERFORMANCE IN SALT LAKE COUNTY**

In addressing these identified needs, the bank's Plan sets goals for both Satisfactory and Outstanding performance under the investment, and service tests for 2005 and 2006. As previously mentioned, the final year of this evaluation period (2007) was not part of any Plan. Community Development Loan (CD) activity was not included in the Plan, nor did the bank engage in any CD lending during the assessment period. A summary of the institution's investment and service activities under its Plan goals and its actual performance pertaining to each goal is detailed on the follows pages.

## **QUALIFIED INVESTMENTS**

BMW met the requirements established under its Plan for an outstanding level of investments for each of the two respective Plan years. BMW met these goals strictly through the funding of FNMA affordable housing pools, with the underlying properties primarily located in the bank's assessment area; replacing depleting pools with new issues. For year 2007, the bank's investment volume continued to be strictly in non-complex, non innovative FNMA housing bonds with an additional \$14.6 million acquisition. However, the underlying properties in this pool were primarily located outside of the bank's assessment area, resulting in only satisfactory performance for this year.

BMW's Plan goals for its investment activities call for a total qualified investment dollar volume equal to 1 percent of average monthly assets per Plan year for satisfactory performance, and 1.5 percent for outstanding performance. This measure is calculated as the simple average of the month-end qualifying investment percentages (month-end qualifying investments divided by the month-end assets) over twelve months of each calendar year of the Plan period.

**Year 2005 Qualified Investment Plan Goal:** Achieve a total qualified investment dollar volume equal to 1 percent of average monthly assets per Plan year for satisfactory performance, and 1.5 percent for outstanding performance.

The following tables show the bank's qualified investment performance for the respective years:

<b>2005</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>
CRA Investments (000s)	19,842	19,708	19,609	19,262	19,041	18,729
Total Assets (TA) (000s)	1,510,431	1,458,950	1,196,337	1,246,014	1,329,492	1,447,898
<b>Investments to TA (%)</b>	<b>1.31</b>	<b>1.35</b>	<b>1.64</b>	<b>1.55</b>	<b>1.43</b>	<b>1.29</b>
	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
CRA Investments (000s)	18,229	17,847	35,066	34,635	33,748	33,461
Total Assets (TA) (000s)	1,538,670	1,650,474	1,729,230	1,768,524	1,779,143	1,770,053
<b>Investments to TA (%)</b>	<b>1.18</b>	<b>1.08</b>	<b>2.03</b>	<b>1.96</b>	<b>1.90</b>	<b>1.89</b>

Source: Examiner prepared

- Total 2005 CRA investments over total yearly average assets – **1.55 percent**
- **2006 Investment Plan Goal – Outstanding**
- Average CRA qualifying investment volume carried forward from prior years - **\$19 million**
- New qualifying CRA investments during 2005 - **\$16.5 million**

**Year 2006 Qualified Investment Plan Goal:** Achieve a total qualified investment dollar volume equal to 1 percent of average monthly assets per Plan year for satisfactory performance, and 1.5 percent for outstanding performance.

<b>2006</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>
CRA Investments (000s)	33,338	33,110	32,684	32,418	32,280	31,892
Total Assets (TA) (000s)	1,816,717	1,852,042	1,862,854	1,923,961	1,959,074	1,982,772
<b>Investments to TA (%)</b>	<b>1.84</b>	<b>1.79</b>	<b>1.75</b>	<b>1.68</b>	<b>1.65</b>	<b>1.61</b>
	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
CRA Investments (000s)	36,090	35,588	35,182	34,552	34,096	33,050
Total Assets (TA) (000s)	2,011,255	1,973,086	2,042,810	2,105,356	2,168,914	2,219,299
<b>Investments to TA (%)</b>	<b>1.79</b>	<b>1.80</b>	<b>1.72</b>	<b>1.64</b>	<b>1.57</b>	<b>1.49</b>

Source: Examiner prepared

- Total 2006 CRA investments over total yearly average assets – **1.69 percent.**
- **2006 Investment Goal – Outstanding**
- Average CRA qualifying investment volume carried forward from prior years - **\$33 million**
- New qualifying CRA investments during 2006 - **\$4.6 million**

## Year 2007 Qualified Investments (not under Plan):

The bank's 2007 investment activity is not evaluated under a current Strategic Plan. The bank purchased an additional \$14.6 million of FNMA mortgage backed securities during 2007. Of the underlying qualifying mortgages, \$1.5 million were located in the bank's assessment area.

2007	Jan	Feb	Mar	Apr	May	June
CRA Investments (000s)	32,365	32,106	31,707	46,131	45,509	44,827
Total Assets (TA) (000s)	2,227,826	2,223,096	2,298,780	2,306,541	2,314,448	2,364,575
Investments to TA (%)	1.45	1.44	1.38	2.00	1.97	1.90
	Jul	Aug	Sep	Oct	Nov	Dec
CRA Investments (000s)	44,267	43,715	43,193	43,010	41,919	41,603
Total Assets (TA) (000s)	2,357,223	2,387,939	2,481,448	2,555,086	2,528,592	2,483,463
Investments to TA (%)	1.88	1.83	1.74	1.68	1.66	1.68

Source: Examiner prepared

- Total 2007 CRA investments over total yearly average assets – **1.73 percent**
- Average CRA qualifying investment volume carried forward from prior years - **\$32 million**
- New qualifying CRA investments during 2007 - **\$14.6 million.**

The bank's 2007 investment activity is considered Satisfactory. While the volume of qualifying investments continues to be at a high level during 2007, the bank's investment strategy is non-complex, one-dimensional, and decreasing in its impact over its local assessment area. Only \$1.5 million or 10 percent of newly acquired mortgages were located in the bank's assessment area, which is in contrast to 2005 – 2006 where all of the underlying properties were in the bank's assessment area. The institution must exhibit excellent responsiveness to credit and community economic development needs and make *extensive* use of innovative and/or complex investments. The bank's qualified investments did not meet these criteria. The bank has not considered any other local investment options that are available.

## Donations

During the three year assessment period, the bank extended a total of \$61,000 in qualified donations during this reporting period. Nearly half of this volume has been through three annual \$10,000 Whole School contributions to Junior Achievement.

## SERVICE TEST

The Service Test measures the actual number of qualifying service hours that bank employees provide to its assessment area. To qualify, the services provided must involve the employee working on behalf of the bank by providing financial expertise. The services must be financial related, be targeted to low- or moderate-income entities that provide affordable housing or revitalization/stabilization of low- or moderate-income areas, or provide financial expertise and education to low income individuals.

For the service test, the bank set as a yearly Plan goal to provide a total of 150 qualified service hours for satisfactory performance, and 180 hours for outstanding performance. Three separate bank groups performed these service hours and are as follows: Directors, officers, and other management staff. The goal sets a minimum of total hours per group and must provide at least 20 percent of satisfactory goal hours (150), with a limit of 10 percent of total hours for CRA administration. The service hours will be earned in the following areas:

- Leadership roles in qualifying organizations
- Financial education for children
- Financial education for adults
- Individualized financial planning and counseling

### SERVICE HOURS PER PLAN

Plan Year	Qualified Community Service Provider	Actual Performance					Percent of Satisfactory Hours (150) by Each Group
		Tot Hours	Leadership Roles	Fin. Ed. Children	Fin Ed. Adults	Ind. Financial Planning	
2005	Directors	159	0	18	120	21	106%
	Officers	39	23	16	0	0	22%
	Other Mgmt	57	0	57	0	0	38%
	<b>Total Bank Hours</b>	<b>255</b>	<b>23</b>	<b>91</b>	<b>120</b>	<b>21</b>	
2006	Directors	140	13	0	107	20	93%
	Officers	33	0	33	0	0	22%
	Other Mgmt/Staff	80	0	80	0	0	53%
	<b>Total Bank Hours</b>	<b>253</b>	<b>13</b>	<b>113</b>	<b>107</b>	<b>20</b>	

Source: Examiner prepared

The bank met its outstanding goals for service hours and percentage of employee contribution during both Plan years. The bank relied heavily on one Director who performs community outreach on a full-time basis. This Director assists the homeless community by providing various goods and services including financial counseling. A vast majority of all remaining bank staff hours were spent assisting one entity, Junior Achievement.

### SERVICE HOURS OUTSIDE OF PLAN

2007	Directors	112	9	0	83	20
	Officers	33	0	33	0	0
	Other Mgmt/Staff	50	0	50	0	0
	<b>Total Bank Hours</b>	<b>195</b>	<b>9</b>	<b>83</b>	<b>83</b>	<b>20</b>

Source: Examiner prepared

In 2007, the bank contributed 195 service hours during 2007 with this same Director accounting for 104 hours, or 53 percent of total hours. Again, bank staff hours were directed virtually exclusively to Junior Achievement.

## **RESPONSE TO WRITTEN COMPLAINTS**

No CRA related complaints were received since the bank began operations in 1999.

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.